

Appendix A

Summary of CanPX's Proposal for an Information Processor for Corporate Debt Securities

1. Corporate Governance

Overall governance responsibilities for CanPX rest with the CanPX board of directors. Moreover, CanPX's technical facilitator, under the oversight of the CanPX board, is required to adopt policies and procedures to permit CanPX to comply with the requirements of NI 21-101. Additionally, CanPX maintains an Operating Committee comprised of a subset of CanPX board members to address the day-to-day operations of CanPX including contract negotiations with vendors, capital expenditures, financial statement preparations; etc. CanPX also currently utilizes a Corporate Bond Working Group and is in the early stages of developing an Advisory Committee as part of its governance structure. An overview of these two groups is provided below.

a. Corporate Bond Working Group

The mandate of the Corporate Bond Working Group is to regularly review, and on a quarterly basis recommend modifications to, CanPX's designated list of corporate bond securities to ensure that the list continually meets the established criteria as documented on the CanPX website: <http://www.canpx.ca/selectioncriteria.jsp>. In addition, at the direction of the CanPX board of directors, the working group has succeeded in expanding the level of market transparency by gradually increasing over time the number of designated corporate bond securities.

The working group is comprised of fixed-income professionals from IIROC member dealers who sit on the Investment Industry Association of Canada (IIAC) Debt Markets Committee.

b. Advisory Committee

CanPX has initialized the process of finding suitable representatives to sit on the planned Advisory Committee. The final composition of the Committee is expected to include a cross-section of fixed income industry professionals from the buy-side and sell-side (to represent the views of data purchasers and suppliers) as well as marketplaces, data vendors, and other possible stakeholder representatives. It is expected that, in general, the mandate of the Committee will be to bring to CanPX's attention issues of concern to Data Contributors as well as Data Purchasers/Vendors, and to recommend necessary corrective action. Though CanPX understands that it is acting as an information processor for corporate debt securities, and that the transparency requirements set out in Part 8 of NI 21-101 currently apply only to those debt securities, the Advisory Committee would be of greatest value to CanPX and overall market transparency if the Committee were to include in its scope a review of information related to government debt securities. It is

anticipated that the Advisory Committee will be included as part of the existing process the designation of corporate bonds, as well as in developing the necessary criteria for entities required to provide data into CanPX. The Advisory Committee would report directly to the CanPX board of directors, and, as required, contact the Director of the Market Regulation Branch of the Ontario Securities Commission and the Directrice de la supervision des Organismes d'autoreglementation (OAR) at the AMF with any concerns that it may have regarding the governance or operations of the information processor.

2. Systems and Operations

a. Sources of data

Two groups of participants currently supply securities information to CanPX for collection, processing, distribution or publication: 12 investment dealers, that provide CanPX with information related to corporate debt securities, in accordance with the requirements set out in Part 8 of NI 21-101 and Part 10 of the Companion Policy 21-101CP (the Consolidated Data); and 3 inter-dealer brokers (IDBs), which provide CanPX information for government fixed income securities (the Supplementary Data). All participants actively participate in domestic fixed income markets.

Investment dealer participants are all members in good standing with the Investment Industry Regulatory Organization of Canada (IIROC). IIROC membership ensures that a high standard has been met by these dealers in areas such as capital requirements, internal compliance and business continuity planning. Investment dealer participants are also active market-makers in short-term and long-term debt securities and are designated as either Primary Dealers of Government of Canada treasury bills or Primary Dealers of Canada bonds by the Bank of Canada. Investment dealer participants are also represented on the IIAC Debt Markets Committee.

Considerations will be made by the CanPX board on a case by case basis to ensure that all new sources of data meet certain minimum requirements in such areas as:

- Experience with data collection and management
- Ability and willingness to manage any potential conflicts with other CanPX participants
- Systems reliability/business continuity
- Physical and logical security

b. Means of access to the system

CanDeal has been selected as CanPX's new technical facilitator and marketing agent/wholesale distributor. CanDeal will make the CanPX Consolidated and Supplementary Data available through a variety of distribution channels. Specifically, CanPX data will be available through: (a) a fully described, logical, record-based real-time broadcast feed; and in the future, (b) an internet protocol, FTP, near real-time mechanism to ensure broadest possible market reach.

CanDeal will wholesale data through its distributors that are connected with all Canadian telecommunications providers as well as extranet providers such as Radianz, TNS, SPTI, Savvis, Global Alliance and Xasax.

CanDeal is well positioned in the market data supply chain to ensure the broadest possible reach for the CanPX Consolidated and Supplementary Data.

Currently, CanPX provides free daily quotes for yields on Canadian benchmark bonds on its website. Other information such as list of current data contributors and list of designated corporate bonds is also publicly available on the CanPX website: www.CanPX.ca. Additional content is expected to be made available on CanPX website after it transitions to its new technical facilitator.

It is expected that under the transition to CanPX's new technical facilitator, there will be little or no change in existing connectivity methods or costs for current contributors to the Consolidated Data. A secure private network to receive trade files from the dealer community is already in place at CanDeal and the existing CanPX trade file format will be duplicated to ensure a seamless transition to the new technical facilitator. CanPX and its technical facilitator will endeavor to work with new data contributors to establish a preferred connectivity method.

- c. Procedures governing entry and display of quotations and trades in the system including collection, processing, distributing, publishing, including data validation processes

CanPX's technical facilitator is required to ensure that systems are in place to ensure the integrity of the data reported to and disseminated by CanPX. As part of their current data management business, CanDeal maintains procedures designed to ensure data integrity. Filters are utilized to reject bad data such as negative values, blank values, invalid CUSIP, missing values, etc. Once data passes through these filters, a proprietary algorithm consolidates price and yield sources into a Best Bid/Best Offer. Additional filters are then applied to ensure the final consolidated price/yield is an accurate indication of where the marketplace is for each security. CanDeal's customer service desk monitors composite data as well as individual dealer contributions to ensure timeliness and accuracy of the prices.

To ensure the timeliness and accuracy of the information received and disseminated by the system, CanPX requires that its technical facilitator provide a weekly report to the CanPX secretariat that lists all corporate trades contributed into the system that were delayed more than 1 hour. The report also includes details on amended trades. The report includes the necessary raw data from which the CanPX secretariat can perform the necessary analysis to detect reoccurring material failures on the part of data contributors. Any issues identified are brought to the attention of the CanPX Operating Committee. When necessary, contributors may be contacted for further details surrounding the delayed reporting. Additionally, CanPX maintains a log of services outages experienced at the technical facilitator and addresses issues or areas of concern with the facilitator.

Similar procedures are expected to be followed in CanPX's transition to its new facilitator.

Additionally, IIROC staff also receives the weekly report of delayed trades identified above for use in conjunction with any business conduct compliance examination they may conduct at IIROC member firms who are also CanPX corporate bond data contributors.

d. Data storage

The CanPX technical facilitator is expected to maintain historical data records on all transactions for each of the IDB source feeds, investment dealer FTP feeds, and the CanPX Consolidated Data. Each item and their associated fields will be recorded on a tick by tick basis to the CanPX Storage.

e. The hours of operation of the system.

CanDeal will make CanPX data available from **07:30 to 19:00** (Eastern Time) on regular close Canadian Bond trading days and from **07:30** to the relevant appropriate industry close time on early close Canadian Bond trading days.

f. Description of the training provided to users of the system and any materials provided to the users

Training and materials would include:

- Inbound feed specification documentation and examples;
- Outbound feed specification documentation and examples;
- Generic language written in plain English describing the content and context of the provided data from the information processor translated into appropriate global languages, including French;
- Support time as required to parties contributing information to the information processor;
- Support time as required to parties receiving information from the information processor;
- As appropriate, online documentation and training materials to help explain the content of the data;
- Educational materials for the investing public and subscriber base.

3. Fees and Revenue Sharing

CanPX currently distributes the Consolidated Data (as well as the Supplementary Data) to subscribers through two vendors. The current subscription price for the Consolidated Data is \$25 per month. An additional charge is applied for subscribers also wishing to receive the Supplementary Data. In addition, vendors may charge subscribers with a connectivity fee. It is not expected that subscription costs for the Consolidated Data will vary to a great degree following CanPX's transition to its new technical facilitator.

CanPX has a revenue sharing model in place with its marketplace participant shareholders. These shareholders are also contributors of the CanPX data. Additionally, provisions in the CanPX formation documents permit new contributors, such as Alternative Trading Systems, to become shareholders as well. Revenue-sharing is as follows: CanPX would allocate “Net Corporation Sales Revenue”, which is the excess of revenue over expenses, calculated as between its shareholders based on their relative trading shares in “Total Market Issues” (being “Designated Issues” plus “Corporate Bonds”) through a two-step process. CanPX will determine the total trading volume in “Total Market Issues” and then identify the percentage of such volume attributable to each of three separate “markets”, being the “IDB Market”, the “Corporate Bond Market” and the “ATS Market”.

No methodology currently exists to allocate the Consolidated Data revenues to the contributors to the Consolidated Data irrespective of the contributors’ shareholder status. CanPX understands the need to have such a model in place and will look at developing an equitable framework for all contributors to the Consolidated Data regardless of their shareholder status. CanPX is of the view that an acceptable revenue model must also take into consideration the capital contributions already provided by existing shareholders.

4. Marketplaces, Dealers or Other Parties for which the Information Processor is Acting or for which It Proposes to Act as an Information Processor, and a Description of the Function(s) which the Information Processor Performs or Proposes to Perform

Since May 2004, marketplaces and dealers that have achieved a market share of 0.5% of total corporate bond trading have been required to provide trade details on designated corporate bond debt instruments to CanPX within one hour of the trade, subject to volume caps of \$2 million for investment grade corporate debt securities and \$200,000 for non-investment grade corporate debt securities. CanPX has submitted Form 21-101F5 to the Canadian Securities Administrators for the opportunity to continue to act as the information processor for dealers or marketplaces that achieves the 0.5% threshold for corporate bond trading.

The following twelve investment dealers, who collectively represent the vast majority of bond trading in Canada, currently contribute corporate trade information into CanPX for the Consolidated Data:

1. BMO Nesbitt Burns Inc.
2. Casgrain & Company Limited
3. CIBC World Markets Inc.
4. Desjardins Securities Inc.
5. Laurentian Bank Securities
6. National Bank Financial
7. HSBC (Canada) Securities
8. Merrill Lynch Canada Inc.

9. Canaccord Capital Corporation
10. RBC Capital Markets Inc.
11. Scotia Capital Inc.
12. TD Securities Inc.

The following data is transmitted by contributors into CanPX:

- Issuer
- Security type
- Class
- Series
- Type of counterparty
- Coupon
- Maturity
- Price
- Time of the trade
- Volume

The CanPX system also consolidates real-time and traded prices for Canadian fixed income and money market products, utilizing electronic feeds from Canadian IDBs. Securities currently covered in the Supplementary Data include Government of Canada treasury bills and bonds and provincial bonds. CanPX formation documents also permit alternative trading systems (ATSS) to contribute feeds into CanPX and become shareholders of CanPX.

The following three IDBs contribute to the Supplementary Data:

1. Freedom International Brokerage Company
2. Shorcan Brokers Limited
3. Tullet Prebon Canada Limited

Trade data from CanPX contributors (both the Consolidated and Supplementary Data) is aggregated by CanPX's technical facilitator and made available to market participants and investors through data vendors contracted by CanPX.

In 2008, the CanPX board of directors elected to pursue a new initiative to make CanPX part of a more robust transparency framework by having CanPX offered as part of a broader package of fixed-income market data.

CanPX has selected CanDeal as the optimal partner for this initiative. CanDeal will take on the role of CanPX's new technical facilitator and marketing agent/wholesale distributor as part of a signed agreement, and subject to CanPX continuing to act as an information processor. The CanPX board of directors will retain responsibility for the governance of CanPX.

5. Selection of Securities Reported to the Information Processor and Services Provided by the Information Processor

a. Corporate Bonds (Consolidated Data – as required under NI 21-101)

Currently, trade data for designated corporate bonds is transmitted by participating investment dealers (who comprise the vast majority of bond trading Canada) within one hour of the trade. Trade publication takes place at hourly intervals. The list of corporate bonds for which information is collected is updated on a quarterly basis following the selection process summarized below. CanPX has succeeded in gradually increasing the size of the corporate bond list over time – the current list is represented by approximately 100 corporate securities as compared to fewer than 25 when CanPX first began reporting corporate bond trade information. A recent list of corporate bonds for which trade information is collected and disseminated through CanPX is available at www.CanPX.ca.

The current selection criteria with respect to corporate bond securities include: trading volumes, whether bonds are included in domestic Canadian corporate bond indices and issue size (with a minimum issue size of Cdn \$250 million). Other factors are considered to ensure that the list of corporate bonds includes bonds:

- issued by issuers among the major industrial groups of issuers;
- that are highly liquid (relative to comparables);
- that represent a majority of trade flow within the corporate bond markets;
- of short-term maturities, mid-term maturities and long-term bonds; and
- from each industry classification (with at least two from each classification).

The list of corporate bonds includes private sector issuers that are represented in a major corporate bond index and are relatively well-known credits to retail investors.

The following procedure is currently observed:

1. The list of corporate securities is reviewed quarterly by the CanPX Corporate Bond Working Group.
2. New issues are added to, and issues will be removed, from the list, according to the criteria above.
3. The list of corporate bonds should be increased over time, subject to the practical constraints of obtaining enough liquidity or updates to report.
4. The proposed revised list is circulated to the CanPX board for approval.
5. Upon CanPX board approval, the final list will then be sent to the technical facilitator for implementation.
6. The corporate bond list is made publicly available on the CanPX website.

b. Government of Canada treasury bills and bonds (part of Supplementary Data)

Bid/offer prices, yields and trades for government of Canada Treasury Bills and Bonds transacted through the IDB market are collected into CanPX and disseminated via CanPX

vendors. Bids, offers and trade prices are published in real-time along with accompanying fields for Bid/Ask size, yield and trade volume.

c. Provincial government bonds (part of Supplementary Data)

Bid/offer prices, yields and trades for provincial bonds transacted through the IDB market are collected into CanPX and disseminated via CanPX vendors. Bids, offers and trade prices are published in real-time along with accompanying fields for Bid/Ask size, yield and trade volume